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July 8, 2011

The Honorable Gene Dodaro  
Comptroller General  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, D.C. 20548

Dear Mr. Dodaro:

On May 12, 2011, the Subcommittee on Workforce Protections of the House Committee on Education and the Workforce held a hearing entitled "*Reviewing Workers' Compensation for Federal Employees.*" At the hearing, the Acting Director of the Office of Workers' Compensation Programs (OWCP) in the U.S. Department of Labor (DOL) outlined the administration's draft reforms (Draft Reforms) to the *Federal Employees' Compensation Act* (FECA), the federal statute that provides workers' compensation benefits to federal workers. Among its provisions, the Draft Reforms would: (1) convert benefits to a reduced level upon FECA beneficiaries reaching retirement age; (2) institute a uniform wage loss compensation level for all beneficiaries; and (3) require claimants to satisfy a waiting period before receiving "continuation-of-pay." We hereby ask the Government Accountability Office (GAO) to examine key questions associated with these three provisions.

**I. CONVERSION OF BENEFITS UPON REACHING RETIREMENT AGE**

Currently, FECA provides wage loss compensation benefits (66 2/3 percent of the wage at time of injury for individuals, or 75 percent of the wage at time of injury for those with dependents) up to and beyond retirement age, and in some cases, until death. A majority of FECA beneficiaries claim dependents and receive wage loss benefits at the "augmented" 75 percent rate. FECA benefits are tax-free and subject to a cost-of-living adjustment ("COLA") after the first year of benefits, which has averaged 2.3 percent over the past 10 years.

DOL receives 133,000 new FECA claims each year; on average, 2 percent of these claims involve permanent, long-term disabilities lasting 2 years or more. Of the 45,000 long-term



disability FECA beneficiaries, approximately 15,000 have reached “normal” Social Security retirement age. DOL, DOL's Office of the Inspector General, and other stakeholders have raised concerns that FECA benefits received by those beyond retirement age could be, on average, more generous than benefits received under the traditional federal retirement system, potentially creating inequities among FECA beneficiaries and retirement-aged federal workers.<sup>1</sup>

In its attempt to address this issue, the Draft Reforms would reduce FECA wage loss benefits to 50 percent of a worker's wage at time of injury (adjusted for COLA) upon reaching regular Social Security retirement age. However, not all workers receive an “average” wage, and there are questions about whether some groups of workers could be unfairly impacted by the Draft Reforms. A 1988 GAO report showed that lower wage federal workers generally receive less in FECA benefits than their pre-injury after-tax wages, whereas higher income federal workers could receive more from FECA than their pre-injury after-tax wages.<sup>2</sup>

Testimony submitted in connection with the May 12 hearing suggests that FECA benefits, even when adjusted for cost of living, do not necessarily replace what would have been received by Federal Employees Retirement System (FERS) program participants had they not been injured on the job. For example, FECA does not permit Thrift Savings Plan (TSP) contributions (or an employer match), step increases, or pay increases greater than COLAs. As such, comparisons between FECA and what would be received under a normal retirement would need to be adjusted for variables such as these to ensure a valid comparison. The DOL Inspector General urged “careful consideration” to ensure this current proposal is fair to injured workers.

Given the many questions about whether the Draft Reforms would replace what retirees in the FERS program would have received had they not been permanently injured,<sup>3</sup> it is timely for GAO to assess the DOL proposal. More specifically, we ask GAO to:

1. Assess the Draft Reforms' 50 percent conversion benefit with respect to the five questions outlined in GAO's testimony at the May 12 hearing<sup>4</sup> and the related August 14, 1996 GAO report, as applicable.<sup>5</sup>

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<sup>1</sup> To illustrate the disparity, DOL points to a simulation prepared by the Office of Personnel Management (OPM) which compares a CSRS retiree with a FECA beneficiary. The CSRS retiree would receive 60 percent of their average “high three” years of service pre-tax, compared with FECA which provides 75 percent (or 66-2/3 percent if an individual) tax free. At this point, OPM has developed only one simulation based on an employee with 32 years of service at age 60. Neither DOL nor OPM has developed any simulations for FERS participants.

<sup>2</sup> See GAO, *Federal Employees' Compensation Act: Percentages of Take-Home Pay Replaced by Compensation Benefits* GAO/(GGD-98-174, Aug. 17, 1988).

<sup>3</sup> E.g., FERS annuity, TSP benefits, Social Security, and lost opportunities for promotions.

<sup>4</sup> See *Reviewing Workers' Compensation for Federal Employees: Hearing Before the Sub. Comm. on Workforce Protections of the H. Comm. on Education and the Workforce* (May 12, 2011) (statement of Daniel Bertoni, Director of Education, Workforce, and Income Security Issues, U.S. Government Accountability Office (GAO-11-655T)).

<sup>5</sup> See GAO, *Federal Employees' Compensation Act: Issues Associated with Changing Benefits for Older Beneficiaries* (GAO/GGD-96-138BR, Aug. 14, 1996).



2. Examine how benefits compare between (i) FECA at present; (ii) the Draft Reforms' 50 percent conversion benefit; and, (iii) the take home amounts received under full retirement under FERS, for at least the following:
  - a. Each income bracket from GS-2 through GS-15 (and an analysis of the equivalent levels in the U.S. Postal Service (USPS));
  - b. Individual workers versus those with dependents (of varying numbers);
  - c. Younger workers at a lower level on the GS scale versus older workers at a higher level on the GS scale;
  - d. Workers with long tenure in federal service (*e.g.*, 30 years) versus those with moderate tenure (*e.g.*, 10 years) and those with short tenure (*e.g.*, 3 years) at time of injury;
  - e. States with an income tax versus states with no or a very low income tax; and
  - f. Workers able to accrue/vest benefits under FERS, TSP, Social Security, and step increases, versus those without such ability who remain on FECA.
3. Examine how federal employee health benefits are maintained during the course of a FECA-covered injury and after FECA beneficiaries reach normal retirement age.
4. Identify policy options to ensure equitable treatment for all injured federal employees, so that those who are injured are not worse off or better off than those who had not been injured.

## II. UNIFORM WAGE LOSS COMPENSATION LEVEL FOR ALL BENEFICIARIES

As noted earlier, FECA currently provides wage loss benefits of 66 2/3 percent of the wage at time of injury for individuals, or 75 percent of the wage at time of injury for those with dependents. Under the Draft Reforms, FECA would compensate all beneficiaries for wage loss benefits at a uniform level of 70 percent of the wage at time of injury, rather than provide an 8 1/3 percent augmentation for beneficiaries with dependents. We ask GAO to assess the potential impact of this change on the take home incomes of injured workers with and without this augmentation.

Specifically, while the Draft Reforms would reduce FECA wage loss compensation by 5 percent for beneficiaries with dependents, what would be the impact of this 5 percent reduction on beneficiaries' actual rate of wage replacement compared to workers' pre-injury take-home income? In an August 17, 1998 report, GAO noted that a number of factors can affect the actual rate of take-home wage replacement, including beneficiaries' length of time on the long-term rolls; beneficiaries' pay levels and progressive income tax rate structures; the absence or presence of dependents; and beneficiaries' states of residence.<sup>6</sup> As a result, we ask GAO to assess how wage replacement rates would compare between current FECA rules, the Draft Reforms' uniform compensation level of 70 percent, and take home wages for comparable workers who were not injured.

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<sup>6</sup> See GAO, Federal Employees' Compensation Act: *Percentages of Take-Home Pay Replaced by Compensation Benefits* (GAO/GGD-98-174, Aug. 17, 1998).

### III. PLACEMENT OF WAITING PERIOD BEFORE CONTINUATION-OF-PAY

FECA's continuation-of-pay provision authorizes payment of federal workers' full wages during the first 45 days of absence due to a work-related injury. Following the 45-day period, if a worker is still injured, the worker must wait three days before FECA's long-term wage loss benefits take effect. Injured federal workers must use accrued leave, if available, to satisfy this three-day waiting period.

However, since 2006 injured workers employed by USPS must wait three days (and use accrued leave, if available) *before* receiving continuation-of-pay benefits. In the event a USPS employee's FECA claim is approved, and the employee is absent from work for at least 14 days, the three days are reimbursed. One rationale for a pre-benefits waiting period is that workers with minor injury claims may be discouraged from filing for benefits and entering the program if they are required first to use their own accrued leave.

The Draft Reforms would adopt the USPS model by imposing a three day pre-benefits waiting period for all federal workers. However, to date, DOL has been unable to quantify the impact of the pre-benefits waiting period on USPS.

We ask GAO to assess the potential impact, if any, of this suggested change using the USPS as baseline. Specifically, has USPS experienced reductions in minor or questionable workers' compensation claims that are attributable to this 2006 change? If so, what specific savings have been identified with this new approach, and can GAO validate those savings? Further, in light of USPS's experience with the pre-benefits waiting period, what is the potential impact, if any, of extending the Draft Reforms' waiting period to all federal workers?

We would appreciate the opportunity to review this request in further detail with you and your staff. To facilitate this review, please contact Molly Salmi or Donald McIntosh with the majority staff at (202) 225-7101, or Richard Miller or Michele Varnhagen with the minority staff at (202) 225-3725.

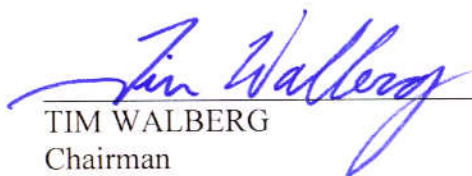
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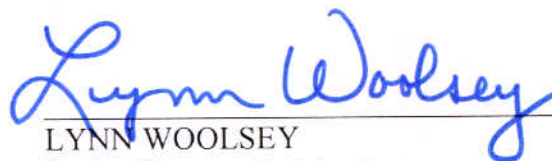
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